

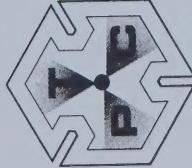
AR46



**Conn Chem Limited
Annual Report
1974**

Financial Highlights

	1974	1973
Sales	\$54,000,000	\$38,200,000
Net Earnings after extraordinary items	\$2,291,589	\$1,955,222
Net Earnings before extraordinary items	\$2,016,589	\$1,859,022
Net Earnings per share after extraordinary items	\$0.85	\$0.73
Net Earnings per share before extraordinary items	\$0.75	\$0.69



Conn Chem Limited

Interim Report to Shareholders

For six months ended June 30, 1974

To the Shareholders:

The first six months of 1974 have been the most successful in your Company's history.

Sales for the first half ending June 30, 1974 were \$26,259,252 up 48% from \$17,666,576 in the same period in 1973.

Net earnings were \$1,048,123 up 17% from \$890,892 in 1973.

Net earnings per share were 39 cents up 18% from 33 cents in the same period for the previous year.

Net earnings included an extraordinary item, totalling \$112,000 (4 cents per share) being a reduction of the provision for income taxes due to the utilisation of prior years' losses carried forward by Peterson/Puritan Canada Ltd., a subsidiary acquired in 1973.

Your Company's increase in sales is proportionately greater than its increase in earnings due to the fact that raw material costs are passed on directly to customers. It is obvious that our sales total escalates more rapidly than our income, in a period of volatile raw material price increases.

The results of Dart Packaging Ltd., your Company's most recent acquisition, were not fully available at the time of this report. We do not expect these results to affect materially the figures shown in the statements.

New equipment now being installed at both the aerosol and liquid packaging facilities will increase our production capacity sufficiently to allow us to fulfill a large backlog of orders now on our books. This modern equipment should also enable us to further cut our costs and thus increase earnings.

We expect the profitable trend exhibited in the first two quarters to continue for the remainder of 1974 and produce the best year in your Company's history.

Gordon S. Lang,
President

Conn Chem Limited

INTERIM REPORT TO SHAREHOLDERS

1974

	Jan.	Feb.	Mar.	April	May	June

For the six months ended June 30, 1974.

Conn Chem Limited

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
Six Months Ended June 30, 1974
(with comparative figures for 1973) (Unaudited)

	1974	1973
Sales	\$ 26,259,252	\$ 17,676,576
Income from operations before undenoted items	\$ 2,116,791	\$ 1,987,869
Depreciation	337,446	261,428
Interest on long-term liabilities	20,409	15,187
Remuneration of directors and senior officers of the company	124,000	108,000
Income before undernoted items	481,855	384,615
Interest of minority shareholders in income of subsidiary companies	1,634,936	1,603,254
Extraordinary item—arising from utilisation of loss carry forward of subsidiary company	687,000	690,000
NET INCOME FOR THE PERIOD	947,936	913,254
EARNINGS PER SHARE		
Income before extraordinary items	11,813	22,362
Extraordinary items	936,123	890,892
NET INCOME FOR THE PERIOD	112,000	—
	<u>\$ 1,048,123</u>	<u>\$ 890,892</u>
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Six Months Ended June 30, 1974 (with comparative figures for 1973) (Unaudited)		
	1974	1973
	June 30	June 30
FINANCIAL RESOURCES PROVIDED BY:		
Income before interest of minority shareholders and extraordinary items		
Items not involving current funds		
Depreciation	337,446	261,428
Deferred Income taxes	112,000	—
Contribution from operations	1,397,382	1,174,682
Sale of fixed assets	4,900	150,000
	<u>1,402,282</u>	<u>1,324,682</u>
FINANCIAL RESOURCES WERE USED FOR:		
Additions to fixed assets	935,339	434,841
Acquisition of subsidiary company		
Purchase of shares for cash (Note)	120	162,154
Cash advances (Note)	505,000	—
Assumption of working capital deficiency	1,140,016	—
Reduction in non-current portion of long term liabilities	167,940	66,063
	<u>1,608,399</u>	<u>1,803,074</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(206,117)	478,392
WORKING CAPITAL AT BEGINNING OF PERIOD	5,366,226	5,022,936
WORKING CAPITAL AT END OF PERIOD	<u>\$ 5,160,109</u>	<u>\$ 4,544,544</u>

NOTE

Acquisition of Subsidiary Company

The acquisition of the subsidiary company, Dart Packaging Limited, was not finalized as at June 30, 1974. As a result the operations of Dart Packaging Limited from February 1, 1974 have been included in the consolidated statement of income but the final amounts to be included in the Acquisition Equation were not available. No amortization has been provided in the accounts for the unallocated purchase discrepancy. This amortization would not have a material effect on the financial statements.



Officers

Gordon Saunders Lang, P.Eng.,
Chairman of the Board and President

James Davison Lang,
Secretary

Edward Grant Johnston,
Executive Vice-President
Aerosol Products

Edward Wilson Dobson, C.G.A.,
Executive Vice-President
of Administration and Finance

John Kenneth Irvine, B.A.,
Executive Vice-President
Non-aerosol Products

Andries Mulder,
Vice-President Production

Guy Richard Gossling, C.A.,
Treasurer

Directors

Gordon Saunders Lang, P.Eng.

James Davison Lang

Edward Grant Johnston

Edward Wilson Dobson, C.G.A.

Clifford Leonard Mort, P.Eng.

Reuben Lerner, C.A.

Albert Gnat

John Kenneth Irvine, B.A.

Owen F. Elliott, B.A.Sc.

Transfer Agent and Registrar

Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg, Regina,
Calgary, Vancouver

Auditors

Thorne Riddell & Co.
Chartered Accountants, Toronto

Legal Counsel

Lang, Michener, Cranston, Farquharson
and Wright
50 King Street West
Toronto, Ontario

Head Office

24 Curity Avenue
Toronto, Ontario
M4B 1X8

Manufacturing Plants:

Conn Chem Limited
24 Curity Avenue
Toronto, Ontario

Armstrong-Lang Laboratories Limited
26 Waterman Avenue
Toronto, Ontario

K-G Packaging Limited
8001 Keele Street
Concord, Ontario

Chempac Limited
Plant #1
13 Bethridge Road
Toronto, Ontario

Chempac Limited
Plant #2
104 Jutland Road
Toronto, Ontario

Chempac Limited
Plant #3
387 Carlingview Drive
Toronto, Ontario

Peterson/Puritan Canada Limited
30 Curity Avenue
Toronto, Ontario

Dart Packaging Limited
387 Carlingview Drive
Toronto, Ontario

To our Shareholders:

1974 was an excellent year for your Company.

Two major objectives were achieved. The first was the continuation of your Company's pattern of increased sales and earnings. The second, and possibly most important, was the effective consolidation achieved, company wide, of the significant acquisitions made in 1973-74, combined with a program of internal expansion and production reorganization.

The following briefly summarizes the financial results for the year:

- Sales reached a record of \$54 million compared with \$38.2 million in 1973.
- 1974 sales increases were in part attributable to inflationary factors and in part to increased unit sales by every division.
- Net earnings were \$2,291,589 after extraordinary items, compared with \$1,955,222 in 1973.
- Net earnings per share were 85 cents after extraordinary items, compared with 73 cents after extraordinary items in the previous year.
- Net earnings were \$2,016,589 before extraordinary items, compared with \$1,859,022 before extraordinary items the previous year.
- Net earnings per share were 75 cents before extraordinary items, compared with 69 cents before extraordinary items the year before.



Gordon Saunders Lang, P.Eng.,
Chairman of the Board and President

A word about extraordinary items.

During 1974 and 1973, your company made two important acquisitions—Peterson/Puritan Canada Ltd. and Dart Packaging Ltd., both of which had

accumulated substantial losses prior to their purchase by Conn Chem. Management was convinced that, ultimately, both of these companies would respond positively to Conn Chem's management. Both operations have, in fact, been markedly improved during this past year. The combination of customer relations expertise and attention to production efficiencies that have made your company's operations successful in the past have proved effective in both instances.

Accordingly, a reduction of income tax amounting to \$275,000 is shown as an extraordinary item in 1974 figures. An additional \$1,162,000 in loss carry forward (including an excess of undepreciated capital cost over net book value of depreciable fixed assets) is available to reduce future income for tax purposes, the tax effect of which has not been recorded in the accounts.

A general review of the year would not be complete without reference to the extraordinary raw material price increase pattern which developed during 1973 and which peaked at mid-year 1974.

Fluctuations in raw material prices generally are borne directly by the products manufactured for our customers. This provides a significant protection to Conn Chem in any period of volatile price changes. When material prices increase suddenly there is an apparent sharp increase in dollar sales without commensurate increase in net earnings relative to sales.

On the other hand, the ratio of earnings relative to units of volume remains satisfactory.

Of course, your company conducts a continual reassessment of its manufacturing fee schedules to ensure that all customer costs are allocated appropriately and to ensure that satisfactory profit levels per production unit are maintained while at the same time increasing efficiency and developing formulation and packaging innovations to help reduce prices to our customers.

Any review of the year just passed which attempts to look at your company as a whole would be incomplete without reference to the very significant consolidation of manufacturing and warehousing which was accomplished in 1974. Without noticeable detriment to earnings during the year, manufacturing and warehousing were consolidated into five fully integrated and product co-ordinated production facilities.

Substantial savings in manufacturing costs are expected to be realized, beginning in 1975, and the effect on earnings will be beneficial.

The smoothness with which this in-company consolidation program was carried out—without major disruption either to manufacturing or to earnings—is quite possibly the most significant development of the year for Conn Chem.



James Davison Lang
Secretary

Among the highlights:

- K-G has moved its manufacturing and warehousing from several scattered locations into one fully equipped modern facility that now provides room for efficient future growth.
- Chempac's Bethridge Road liquid product plant was increased from 50,000 sq. ft. to 90,000 sq. ft. and run-in of the facility has been completed satisfactorily.
- Chempac's 65,000 sq. ft. flexible packaging plant at Carlingview Drive has been placed in full production following doubling of blending capacity and increased efficiency of materials handling.
- Major improvements were completed on aerosol filling lines at Conn Chem, Peterson/Puritan and Armstrong-Lang divisions.

The following pages review some of the products and some of the people within your company's major divisions: Chempac and Dart (liquid, powders, and pouches); K-G (paints and automotive products); Armstrong-Lang (pharmaceuticals and toiletries); Conn Chem and Peterson/Puritan (household aerosols and cosmetics). Also highlighted is your company's quality assurance resource which provides a vitally important input to every part of our activity.

Chempac and Dart

Chempac and Dart are your company's manufacturing and packaging specialists for three specific areas: liquids, powders and pouches.

The acquisition of Dart was completed early in 1974 and the integration of Dart's production capacity was fitted into Chempac's larger scale expansion and consolidation program.

By the end of the year, three completely self contained and major manufacturing and packaging facilities were established as efficient and large scale producers.



Gary Ullman, Vice-President and General Manager Chempac Ltd.

Liquids

This segment of your company formulates, blends, and packages such products as men's and women's toiletries, cosmetics (creams and lotions), shampoos, mouth wash, household cleaners, liquid waxes, drain openers, air fresheners and many, many others.

The liquid filling plant at Bethridge Road was successfully expanded to virtually double productive capacity during the year. With the installation of upgraded bulk storage and filling equipment, the plant has become one of the most efficient producers and packagers—anywhere.

Notwithstanding the normal disruptions associated with expansion and consolidation activity, the liquid filling plant increased unit production substantially over 1973.



Liquid filling line in operation at Chempac.

Powder

The manufacturing and packaging of such powder products as cosmetic powders, soap detergents, household cleansers, drain openers, automatic dishwashing compounds and garden chemicals has become an important part of your company's activity.

These are produced at Chempac's Jutland Road facility.

The plant has 55,000 sq. ft. and is equipped with one of the most sophisticated and effective dust control systems in operation anywhere.

Specially designed bulk storage facilities for raw materials make it possible to effect substantial savings via large scale chemical purchasing.

Unit volume increased during the past year.

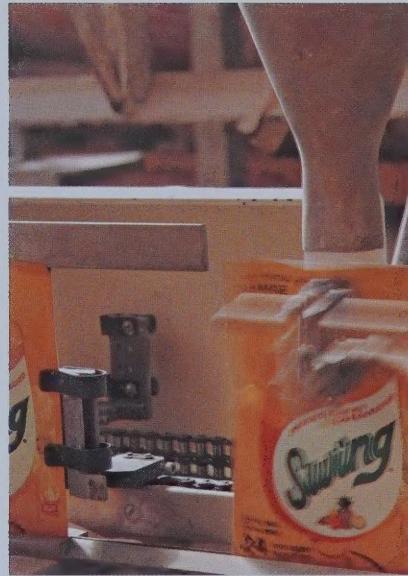
Pouches

Sometimes called flexible packaging, pouch packaging is one of the fastest growing innovations in Canadian marketing.

Your company's specialized pouch packaging plant at Carlingview Drive is one of the finest and most diverse anywhere.

This plant is equipped with 14 separate dust-controlled blending and packaging bays for the production of such mass consumed items as breakfast drink crystals, coffee, hot chocolate, proprietary medicines, popcorn and other food stuffs such as ketchup and mustard.

The utter simplicity of the individual portion package has captured and excited the imaginations of marketers around the world. A growing volume of test marketing of products packed in flexible pouches attests to the fact that your Company's 1974 volume of many million units is just the threshold of an increasingly significant business.



High speed flexible packaging at Chempac.



Checking weight at Chempac's powder packaging facility.

Armstrong-Lang

Armstrong-Lang provides your company with a highly professional research centre to formulate new products for all divisions. It also utilizes a closely inspected production facility for the manufacture of prescription drug products, proprietary drug products, personal care products and food products.

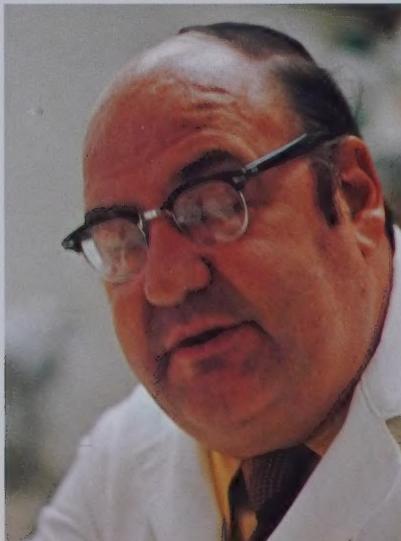
1974 was an exciting year for this Division which produces both aerosol and other product forms. The extraordinary attention to quality control required to meet stringent government regulations for the production of prescription pharmaceuticals, favourably positions this division to handle a wide variety of cosmetics, food and other drug products.

Among the products produced in this division are nasal decongestants, asthmatic preparations, perfumes and other cosmetics, anti-perspirants, etc.

A highlight of the year was the approval for sale of a major breakthrough product for the food industry. This new butter flavoured product, for use in cooking and basting, could be the start of a new line of consumable items approved for packaging in aerosol containers.



Manufacturing and packaging under highly controlled conditions at Armstrong-Lang Laboratories.



George Kitchen, General Manager
Armstrong-Lang Laboratories Ltd.



Rick Gossling, Treasurer
Conn Chem Limited

K-G Packaging

Your company's K-G division is utilizing the ultra modern facility acquired through the purchase of Peterson/Puritan.

During 1974, the division consolidated its previous three separate locations, totalling some 40,000 sq. ft. into a well-designed 56,000 sq. ft. facility which has a large tank farm adjacent to the plant for bulk storage of raw materials.

Despite all moving and run-in dislocations encountered during the year, K-G increased its sales volume by more than 20%, and controlled unit costs successfully.

K-G's products include spray paints for domestic and automotive use, aerosol starter fluids and other products for the automotive after market, boating and winter recreational vehicles.



George Noguchi, General Manager
K-G Packaging Ltd.



Russ Geoffrey, Sales Manager
Conn Chem Limited

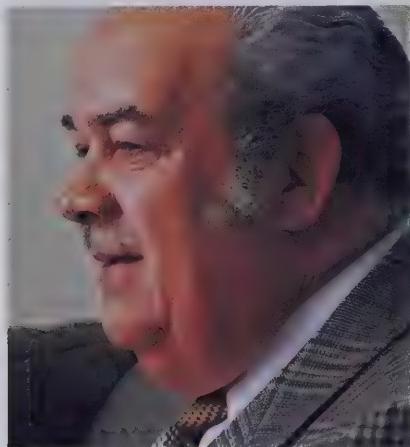


Albert Suk, Technical Director, K-G
Packaging checking colour samples for
paint production.

Aerosols

Aerosol products are produced by four separate units within the company: K-G, Armstrong-Lang, Peterson/Puritan and Conn Chem. Because of the highly specialist nature of K-G and Armstrong-Lang, their activities, including aerosol products, are to some degree reviewed separately.

Your company consolidated its position as Canada's leading manufacturer of aerosol products during the year through a program of continual upgrading of productive efficiency, intensive cost control, inflexibly high standards of quality control and rigid attention to customer services.



Jack Nicol, Assistant to General Manager Conn Chem Limited

Aerosols are often described as the most significant packaging innovation of this century to date. To give you some idea of the scope of Conn Chem's involvement in this field, the following is but a partial list of the types of products produced by your company in large volumes during the past year: insecticides, personal insect repellants, room deodorizers, disinfectants, shaving cream, hair sprays for men and women, shampoos, window cleaners, rug shampoos, furniture wax, spray starches, anti-static and clothes softener sprays, tub and tile cleaners, stain repellants, spot removers, pre-laundry stain removers, low calorie cooking ease products, colognes and perfumes, anti-perspirants, personal deodorants, medicines, sun tan preparations, foot care products, air fresheners, mouth fresheners, oven cleaners, adhesives, paints and lacquers, waterproofing, rust proofing, de-icers and cold weather starting aids.

Production of this seemingly endless list of diverse products is precision scheduled to a complex of thirteen self contained aerosol filling lines of which 11 are located at the company's East York facility.

At Conn Chem and Peterson/Puritan, 1974 production of aerosol products remained high.

It has been a policy of your company to maintain, whenever possible, a slightly higher aerosol filling capacity than is required to meet immediate demand. In 1974 significant progress was achieved in the re-design of five active filling lines, at the East York facility with the result that they now exceed the capacity for unit production of the seven general purpose lines which were in operation at the start of the year.

This upgrading of existing lines was achieved at relatively low investment cost and resulted in maintaining production costs. Also, it provides two additional lines for new product developments.

Such innovations as computerized propellant blending and a very high speed 18 head rotary liquid filler have enabled your company to set up and regularly operate one of the most sophisticated aerosol filling lines anywhere in the world.

A side benefit of this line upgrading program which could become apparent in 1975 and later years is the availability of one of the Division's specially innovative lines for experimental and introductory production runs for a highly promising new product range for the grocery product industries. One of our new aerosol food products—a butter substitute for cooking and basting—is already on the market and preliminary results have been very encouraging.

A sensitivity to production problem-solving has resulted in a capacity for product test runs. These aerosol lines have quick change-over characteristics, are extraordinarily flexible and the result is that we make it easier for our customers—the national brand marketing companies—to test market their new ideas. Experience has taught us that such a facility is readily translated into long term manufacturing and filling assignments as new products prove themselves in the market place.

1974 was characterized by considerable public discussions of the world's ozone layer and the possible effects of fluorocarbon propellants from aerosols affecting the ozone layer adversely.

Thus far, the evidence does not indicate reason for alarm. Our industry does know that average ozone content in the world's atmosphere seems to have increased slightly in recent years.

Fluorocarbon propellants are used in some quantity by your company. While these provide something less than 50% of the



Andy Mulder, Vice-President Production Conn Chem Limited

propellant materials used at Conn Chem, they are an important enough industrial raw material to warrant considerable study. Both your company and others in the aerosol industry around the world are conducting intensive research to establish whether the use of this material is potentially beneficial or harmful and, also, to advance the industry's knowledge of a number of substitute materials.

While your management is confident that no reasonable argument has yet been advanced to warrant a reduced use of fluorocarbons, it nonetheless has taken appropriate steps to research substitute propellants.



High speed aerosol line at Conn Chem.

Quality Assurance

Your company's management has strong feelings on the subject of quality assurance. For this reason, it maintains eight separate, well equipped laboratories to ensure that each of the more than one thousand products produced and packaged for its customers precisely meet or exceed all formulary criteria and regulatory requirements.

Two of the laboratories have specialist functions. These are the labs responsible for micro-biology and for hair care products.

Additionally, full scale new product development and quality control laboratories are operated in conjunction with each of the company's divisions.

During 1974, your company employed more than 60 persons for the purpose of ensuring that the quality of existing products remained high—and also to maintain a constant flow of new and improved products.

The Year in Brief

During 1974, your Company achieved record sales and record earnings. It completed several important expansions and consolidations which are expected to contribute significantly to sales and earnings for the future.

For 1975, the outlook is good. Some fall off in demand is foreseen for the first half due to inventory readjustments by customers. But for the entire year, your management is confident that the results obtained in the year just passed can be equalled or exceeded.

Early in 1975, two acquisitions were completed:

- Your Company has purchased Prolux Packaging Ltd., of Scarborough, Ontario which it intends to maintain as a separate manufacturing entity. Prolux, employing some 40 people, is an aerosol manufacturer of cosmetics, anti-perspirants and other toiletry oriented products.

• Your company has exercised its option to purchase control of Craft Graphic Services Ltd., of Toronto, a printer of labels, cartons, catalogues and specialty printing.

- Also, your company purchased all remaining minority shares of K-G.

These acquisitions are expected to contribute to earnings in 1975.

Finally a word about the people who make up Conn Chem. They have shown initiative, imagination, energy and loyalty. Your Board of Directors expresses sincere appreciation to all of them.

On behalf of the Board of Directors

Gordon S. Lang, President and Chairman of the Board.



Conn Chem
Limited
and subsidiary
companies

Consolidated Balance Sheet

December 31, 1974

(with comparative figures at December 31, 1973)

(Incorporated under the laws of Ontario)

Assets

1974

1973

Current Assets

Accounts receivable

Trade	\$7,738,355	\$6,974,680
Other (note 2)	495,587	413,631
Inventories (note 3)	7,671,601	6,171,338
Prepaid expenses	67,489	129,854
	15,973,032	13,689,503

Fixed Assets (note 4)

Land, buildings and equipment, at cost

Less accumulated depreciation		
	11,327,938	9,422,187
	5,941,766	5,380,479
	5,386,172	4,041,708

\$21,359,204

\$17,731,211

Approved by the Board

Director

Director

Liabilities	1974	1973
Current Liabilities		
Bankers' acceptance	\$2,000,000	\$1,100,000
Bank advances	1,863,215	2,041,660
Demand loans	920,000	
Accounts payable and accrued liabilities	4,452,028	4,716,481
Income and other taxes payable	504,620	243,001
Principal due within one year on long-term liabilities	<u>224,923</u>	<u>222,135</u>
	9,964,786	8,323,277
Long-Term Liabilities (note 5)	511,877	736,800
Deferred Income Taxes	620,100	455,600
Interest of Minority Shareholders in Subsidiary Company	74,968	71,402
Shareholder's Equity		
Capital Stock (note 7)		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,696,452 Common shares	5,419,842	5,419,842
Retained Earnings (note 8)	4,767,631	2,724,290
	10,187,473	8,144,132
	\$21,359,204	\$17,731,211
Long-term leases (note 9)		

Auditors' Report

To the Shareholders of
Conn Chem Limited

We have examined the consolidated balance sheet of Conn Chem Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Thorne Riddell & Co.
Toronto, Canada
March 21, 1975.



Conn Chem
Limited
and subsidiary
companies

Consolidated Statement of Income

Year Ended December 31, 1974
(with comparative figures for 1973)

	1974	1973
Sales	\$54,011,192	\$38,259,844
Income from operations before undernoted items	\$ 4,832,405	\$ 4,137,635
Depreciation	875,648	650,223
Interest on long-term liabilities	39,144	38,746
Remuneration of directors and senior officers	233,500	220,000
	1,148,292	908,969
Income before undernoted items	3,684,113	3,228,666
Income taxes		
Current	1,202,600	1,058,100
Deferred	439,500	262,000
	1,642,100	1,320,100
	2,042,013	1,908,566
Interest of minority shareholders in income of subsidiary company (note 1)	25,424	49,544
Income before extraordinary item	2,016,589	1,859,022
Income Tax Reduction of Subsidiary Company		
Arising from Carry-Forward of Prior Years' Losses	275,000	96,200
Net Income for the year	\$ 2,291,589	\$ 1,955,222
Earnings per share (note 10)		
Income before extraordinary item	\$.75	\$.69
Extraordinary item	.10	.04
Net income for the year	\$.85	\$.73

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1974
 (with comparative figures for 1973)

	1974	1973
Financial Resources were provided by:		
Income before interest of minority shareholders and extraordinary item	<u>\$2,042,013</u>	\$1,908,566
Items not involving current funds		
Depreciation	875,648	650,223
Deferred income taxes	<u>439,500</u>	262,000
Contribution from operations	3,357,161	2,820,789
Disposal of fixed assets	48,256	163,399
Other		7,010
	<u>3,405,417</u>	<u>2,991,198</u>
Financial resources were used for:		
Additions to fixed assets	1,951,118	1,273,189
Acquisition of subsidiary company		
Purchase of shares for cash and note payable	114,847	162,154
Assumption of working capital deficiency	388,595	1,140,016
Reduction in non-current portion of long-term liabilities	224,923	72,549
Additional investments in shares of subsidiary company	<u>83,914</u>	
	<u>2,763,397</u>	<u>2,647,908</u>
Increase in Financial Resources		
Financial Resources at Beginning of Year	642,020	343,290
Financial Resources at End of Year	<u>\$6,008,246</u>	<u>\$5,366,226</u>
Changes in Financial Resources		
Increase (decrease) in current assets		
Accounts receivable, trade	\$ 763,675	\$1,564,875
Accounts receivable, other	81,956	87,466
Inventories	1,500,263	2,095,320
Prepaid expenses	<u>(62,365)</u>	81,726
	<u>2,283,529</u>	<u>3,829,387</u>
(Increase) decrease in current liabilities		
Bankers' acceptance	(900,000)	(1,100,000)
Bank advances	178,445	(881,463)
Demand loans	<u>(920,000)</u>	
Accounts payable and accrued liabilities	264,453	(1,491,914)
Income and other taxes payable	<u>(261,619)</u>	139,892
Principal due within one year on long-term liabilities	<u>(2,788)</u>	(152,612)
	<u>(1,641,509)</u>	<u>(3,486,097)</u>
Increase in Financial Resources	<u>\$ 642,020</u>	<u>\$ 343,290</u>



Consolidated Statement of Retained Earnings

Year Ended December 31, 1974.
(with comparative figures for 1973)

	1974	1973
Balance at beginning of year	<u>\$2,724,290</u>	\$2,122,615
Net income for the year	<u>2,291,589</u>	1,955,222
	<u>\$5,015,879</u>	\$4,077,837
Excess of cost over book value at dates of acquiring shares of subsidiaries, written off	<u>248,248</u>	1,353,547
Balance at end of year (note 8)	<u><u>\$4,767,631</u></u>	<u><u>\$2,724,290</u></u>

Notes to Consolidated Financial Statements

Year Ended December 31, 1974

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies including the major subsidiaries, Chempac Limited, K-G Packaging Limited, Armstrong-Lang Laboratories Limited and Peterson/Puritan Canada Limited. K-G Packaging Limited was the only subsidiary not wholly owned at December 31, 1974 (see note 11).

In January 1974 the company acquired, for cash, an additional 7.5% of the outstanding common shares of K-G Packaging Limited and in February 1974, Chempac Limited acquired for cash, all the outstanding shares of Dart Packaging Limited. The earnings of these subsidiaries have been included in consolidated income from dates of acquisition.

The purchase accounting method was used, and the acquisition equation with respect to the Dart Packaging Limited transaction is:

Total assets acquired, at book value	\$484,509
Total liabilities assumed	<u>555,854</u>
	<u>(71,345)</u>
Premium ascribed to goodwill, written off to retained earnings	<u>186,192</u>
Net assets acquired	<u><u>\$114,847</u></u>
Consideration given at fair value	
Cash	\$ 11,013
Note payable	<u>103,834</u>
	<u><u>\$114,847</u></u>

Dart Packaging Limited has loss carry forwards of approximately \$612,000 available to reduce future income for tax purposes (see note 6).

(b) Inventories

Raw materials are valued at lower of cost and replacement cost. Finished goods are valued at lower of cost and net realizable value.

(c) Fixed Assets

Land, buildings and equipment are carried at cost. Depreciation is provided generally at the following rates on the basis indicated.

	Rate	Method
Buildings	5%	Diminishing Balance
Leasehold improvements	Term of lease	Straight line
Machinery and equipment	20%	Diminishing Balance
Automotive equipment	30%	Diminishing Balance

(d) Goodwill

Goodwill, being the excess of the cost of shares of subsidiaries over the book value of the underlying net tangible assets, has been written off to retained earnings at the dates of acquisition. In 1975 and subsequent years goodwill, in accordance with recommendations of the Canadian Institute of Chartered Accountants, will be amortized on a straight line basis to income.

Notes to Consolidated Financial Statements

Year Ended December 31, 1974

2. Accounts Receivable, Other

Included in this account are amounts due from directors and officers aggregating \$74,326 (\$82,141 in 1973).

3. Inventories

	1974	1973
Raw materials	\$6,262,943	\$4,715,514
Finished goods	<u>1,408,658</u>	<u>1,455,824</u>
	<u>\$7,671,601</u>	<u>\$6,171,338</u>

4. Fixed Assets

	1974		1973	
	Accumulated Cost	Depreciation	Net	Net
Land	\$ 158,249	\$ 158,249	\$ 158,249	\$ 158,249
Buildings	2,672,759	880,921	1,791,838	1,336,555
Leasehold improvements	775,103	293,737	481,366	178,753
Machinery and equipment	7,444,498	4,548,020	2,896,478	2,272,108
Automotive equipment	<u>277,329</u>	<u>219,088</u>	<u>58,241</u>	<u>96,043</u>
	<u>\$11,327,938</u>	<u>\$5,941,766</u>	<u>\$5,386,172</u>	<u>\$4,041,708</u>

5. Long-Term Liabilities

	1974	1973
6% Demand note, payable \$150,000 annually April 30, 1975 and 1976	\$300,000	\$450,000
Deferred accounts payable, due \$15,682 annually December 31, 1975 to 1980, without interest	94,129	109,811
7% Mortgage, due July 15, 1979 payable in monthly blended instalments of \$3,573	168,056	198,203
Chattel mortgage, due December 1979 payable \$1,980 annually, interest waived	9,900	11,880
Promissory note, payable \$15,625 annually December 31, 1975 to 1980, without interest	93,750	109,375
7 1/4% Mortgage, due March 15, 1981 payable in monthly blended instalments of \$1,176	70,965	79,666
	<u>736,800</u>	<u>958,935</u>
Less principal included in current liabilities	<u>224,923</u>	<u>222,135</u>
	<u>\$511,877</u>	<u>\$736,800</u>

6. Income Taxes

As at December 31, 1974 two subsidiaries with year ends other than December 31 have the following amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts.

Tax loss carry forward expiring in fiscal year ending:

1976	\$ 4,170
1977	67,827
1978	418,334
1979	404,599
1980	198,314

Excess of undepreciated capital cost over net book value of depreciable fixed assets	68,756
	<u>\$1,162,000</u>

7. Capital Stock

During the year revisions were made to the employee's stock option plan. At December 31, 1974 options granted to certain employees were outstanding on 106,000 shares at \$3.05 per share and are exercisable to 1979. An additional 14,000 shares are reserved for similar options.

8. Retained Earnings

One result of the winding up of Connecticut Chemicals Limited in March, 1972 was the creation in Conn Chem Limited of substantial capital surplus for income tax purposes which, on distribution, would be tax-free to shareholders of Conn Chem Limited, subject to a corresponding reduction in the shareholders' cost base of their shares.

9. Long-Term Leases

Property leases entered into by the subsidiaries of Conn Chem Limited extend into the year 1984, the minimum rental for which (exclusive of taxes, insurance and occupancy charges) is as follows:

1975-1979	\$1,315,700
1980-1984	678,538

10. Earnings Per Share

Fully diluted earnings per share after giving effect to share options granted under the employee stock option plan are:

	1974	1973
Income before extraordinary item	\$.72	\$.68
Net income for the year	<u>\$.82</u>	<u>\$.72</u>

11. Subsequent Events

Subsequent to December 31, 1974, the company completed the acquisition of the following:

- (a) The remaining issued shares of K-G Packaging Limited
- (b) All the issued shares of Prolux Packaging Limited

The total consideration, paid in cash, for the above acquisitions, amounts to approximately \$1,100,000.

In addition to the above, the company exercised its option to acquire from certain officers of the company the majority of the issued shares of Craft Graphic Services Limited for \$1. Completion of this transaction is subject to the fulfillment of various conditions. At December 31, 1974, liabilities exceeded assets by approximately \$800,000.





Total packaging concept